

DR. BARKEMA: Thank you, Mr. Chairman, members of the Commission. I'm delighted to have this opportunity to offer testimony this morning.

I'm going to focus my remarks on U.S. agriculture's prospects in the global marketplace.

U.S. agriculture does make a substantial contribution to the nation's trade balance each year, standing in striking contrast to a trade deficit in non-farm goods that has swelled to record proportions.

To be sure, the nation's farm trade surplus has shrunk in recent years, as the nation's overall trade deficit has deepened. But still, in my view, prospects for U.S. farm exports remain fairly bright.

My testimony this morning will develop these views in three steps:

First, I will review recent developments in U.S. farm trade; second, I will explore prospects for farm trade in the years ahead; and third, I will sketch the broad outlines of the farm and trade policy framework that would enable U.S. agriculture to realize its full potential in the global marketplace.

Each year, U.S. agriculture sells more than a fifth of its overall output in foreign markets,

including an even larger proportion of the nation's major crops, roughly a third overall, and a much smaller but rapidly growing share of its livestock output, about a tenth.

The industry's exports swelled to a record \$60 billion in fiscal '96 -- that was about 10 percent of the nation's total exports of all goods -- producing a farm trade surplus of about \$27 billion, the widest surplus on record.

But since then, farm exports have dipped sharply. They have fallen about 18 percent from that 1996 high point. In this fiscal year, farm exports are expected to improve only slightly, and the farm trade surplus is expected to remain about \$11.5 billion, which would be the leanest since the mid-1980s.

The current slump in farm exports was triggered by a couple of developments, first of all, a sharp drop in foreign demand, and secondly, a surge in global grain production.

Beginning in the summer of 1997, a wave of financial woes in the Asian and Latin American markets trimmed demand for U.S. farm products.

Meanwhile, global production of this nation's major crops, corn, wheat, and soybeans, ratcheted up sharply, driven by a four-year run of generally favorable weather.

Because such a large share of U.S. agriculture's output is exported, the industry's recent fortunes closely paralleled its performance in the global marketplace.

Farm income climbed to a record \$55 billion in 1996, when farm exports surged. But since then, farm income has dropped sharply, dropping about 12 percent below that 1996 crest.

And as we've heard earlier this morning, that decline would have been even deeper had it not been for Government subsidies that rose last year to almost half of total farm income in the nation.

With farm exports expected to remain soft for another year, the nation's farm income could fall another 15 percent this year unless more Government subsidies materialize.

Despite the recent downturn in farm exports, though, the longer-term prospects for the industry's trade remain fairly bright.

In my view, that outcome hinges on U.S. agriculture's productive capacity and on prospective growth in world food trade.

The United States is home to an expansive landscape of highly productive land, a favorable climate, leading agricultural technology, skilled farmers, an efficient transportation infrastructure, and perhaps most important, an economic system that encourages innovation and efficiency.

Together, these elements make the industry a highly competitive, high volume player in a still keenly competitive global marketplace.

While U.S. agriculture's share of the market is neither won nor held easily, the industry is well positioned to maintain or boost its foreign sales when growth in the global market allows.

The world food market will likely grow in the years ahead, driven mainly by growth in populations and per capita incomes around the globe.

Most projections suggest that global food production will keep pace with food demand. And the experience of the last couple of decades suggests that the world food market will also remain highly volatile.

Amid this ebb and flow, though, a growing world food market should enable U.S. agriculture to expand its foreign sales.

The two biggest markets for U.S. farm products today are Japan and Western Europe. But these markets have generally matured and provided relatively little growth in recent years.

In contrast, the next two leading markets, Canada and Mexico, have grown rapidly in the last decade, with much of the growth occurring since the North American Free Trade Agreement was enacted.

Another prospective growth market for U.S. agricultural products are the developing nations, primarily in Asia and Latin America, where populations and per capita incomes are growing much more rapidly than in the wealthier countries.

While many developing economies have stumbled, clearly, in recent years, they are on the mend again, brightening the outlook for the years ahead.

Rising incomes are an especially potent force in boosting food demand in the developing world,

because consumers there spend a substantial portion of their incomes on food, a third, a half, sometimes more.

As incomes rise, developing world consumers generally improve their diets, purchasing in the world market higher quality food products that are not available locally.

The effect of income gains and improved diets in the developing world is already evidenced in a shift in world food trade from generic commodities to value-added food products.

In the early 1980s, for example, generic commodities, generally unprocessed grains, were more than two-thirds of U.S. farm exports, value-added products were about a third.

Today that proportion has flipped, with value-added food products comprising nearly two-thirds of the industry's overall exports.

And a striking example of that shift is a sharp increase in U.S. meat exports. Since the early 1980s, U.S. exports of poultry products are up about 12-fold, pork, up about nine-fold, beef, about seven-fold.

Moreover, value-added exports have generally been steadier than commodity exports, especially during the current farm export slump, suggesting that this product shift towards value-added products could be a valuable stabilizer in U.S. agriculture's participation in a still volatile world food market in the years ahead.

U.S. agriculture's position in the market suggests the industry will fare better in a growing global market that enables it to take full advantage of its technological prowess and its high-volume capacity.

Both international trade policy and domestic farm policy can help the industry realize that potential.

In international policy, generally U.S. agriculture's interests focus on efforts to broaden the industry's access to foreign markets by pulling down tariffs and other trade barriers and by limiting unfair competition from farm subsidies in other food exporting nations.

But in addition to opening markets for U.S. farm products, unfettered trade also gives developing

countries broader access to global markets for their products of many types.

The widening of this two-way street boosts incomes and purchasing power among the most promising customers for U.S. farm products.

From that view, agriculture's brightest promise in prospective new trade agreements, including a new round in the WTO, a broader trading relationship with China and a prospective Free Trade Area of the Americas, is a boost that each would give to developing country incomes and overall food demand.

Overall, prospects for farm trade gains are generally better when farm trade negotiations are included as part of a broader, multilateral agenda that spans a wider range of products and incomes.

In addition, such a broad trade agenda provides more flexibility for balancing trade concerns in other industries with unique trade problems in agriculture, where trade remains much more restricted.

One farm trade problem that I want to highlight briefly that we've heard about earlier this morning is international product regulations,

especially the regulation of what has become known as genetically modified organisms, or GMO's.

GMO's include new crop varieties that have been developed with the aid of recent advances in biotechnology.

The new crops are very popular in the United States, where the proportion of corn, soybean, and cotton crops planted to the new high-technology varieties has jumped to almost half since the technology was introduced commercially in 1996.

That new technology, though, has met considerable resistance in some markets, most notably Europe and Japan.

And unless future trade agreements can strengthen the scientific basis for regulating these new products, agricultural exports from the United States and other countries that use the technology could be hurt, producer costs could rise, and most important, consumers around the world could be denied access to many valuable new products.

Finally, a note on domestic farm policy. It appears to me that domestic farm policy

prescriptions must also take into account these international developments.

In particular, previous efforts in the United States to boost domestic crop prices with policies that cut back U.S. production have eroded U.S. agriculture's competitive advantage while encouraging bigger production among competitors eager to fill that market void.

In contrast, farm policies that preserve the industry's exposure to market prices foster more nimble adjustment to shifts in the global marketplace.

So to sum up, unfettered trade promises a further expansion in the global economy, as producers from the United States and other countries gain freer access to the world market and consumers gain access to products from other lands.

As global incomes rise, food demand grows, especially in the developing countries that are U.S. agriculture's most promising customers.

The ebb and flow in U.S. farm exports will probably continue in the years ahead.

But a solid framework of policies that promote free trade and global income growth is the best bet to bolster U.S. agriculture's trade prospects.

That concludes my remarks. Thank you very much for the opportunity.

MR. WEIDENBAUM: Thank you for a very fine statement.

Our second panelist is Neil Harl, who holds a Distinguished Professorship in Agriculture at Iowa State and is a former President of the American Agricultural Economics Association.

Dr. Harl.